Ontario
Economic
Council

81 Wellesley Street East
Toronto, Ontario
M4Y 1H6

(416) 965-4315

News

FOR RELEASE: Wednesday, February 22, 1978

EXTENDING CANADIAN HEALTH INSURANCE: options for pharmacare and denticare, by R.G. Evans and M. F. Williamson, a research study prepared for the Ontario Economic Council, and published by the University of Toronto Press.

TORONTO, February 22 -- The extension of Ontario's universal hospital and medical insurance programs to cover pharmaceutical and dental expenditures would be a relatively expensive undertaking, yielding minimal benefits to most of the population, according to a research study released today by the Ontario Economic Council.

Alternative public programs could meet all or most of the objectives sought through universal insurance, but at significantly lower cost and with improved efficiency of service delivery, according to R. G. Evans and M. F. Williamson, in EXTENDING CANADIAN HEALTH INSURANCE: options for pharmacare and denticare.

The 276 page study identifies four objectives for public insurance plans, namely to spread the risk of illness costs over the population, to redistribute income, to influence the use of health services, and to influence the efficiency with which they are produced.

The authors estimate that the total budgetary cost of universal dental and pharmaceutical insurance programs in Ontario in 1975 would have been $249 million and $255 million respectively, at then current patterns of use and cost. A plausible set of assumptions about increased use of drugs after insurance, raises the latter figure to the $280-$320 million

.../2

range. Dental care for all, at levels now 'enjoyed' by the affluent, would cost a whopping $641 million, the study suggests.

A range of alternative partial programs is examined, and the authors conclude that primary emphasis should be on programs which embody greater incentives for efficiency and cost reduction in the delivery of services. It is estimated that very large savings, in the order of 30 to 40 per cent of total costs, could result from a "rationalized and more efficient delivery system in both pharmacy and dentistry, particularly from much more extensive delegation of tasks to auxiliaries," such as dental nurses and assistants. These estimates are based on a number of experimental and field studies cited in the report.

Several proposals are offered to achieve savings in pharmacare programs, including using market forces to increase efficiency in pharmaceutical dispensing, permitting pharmacists to set their dispensing charges independently and to advertise this charge, requiring patients to pay the dispensing charge, and insuring the ingredient costs only.

Market forces seem much more difficult to harness in dental care, the study states, although some suggestions are made. On the alternative of a salaried public school dental service for children, the authors conclude that based on current experience and estimates, such a service could reach 90 per cent of the school population at a cost of about $84 million. A children's denticare plan which paid private practitioners' fees would do well to reach 70 per cent of the population, at an estimated cost of $95 million. The school-based system, unlike the private practice, makes minimal use of dentists and thus can be geared up to capacity rapidly.

Rationalizing the delivery system through "a combination of competitive pressures and selective public intervention," the study says, could yield annual savings in pharmacy and dentistry of hundreds of millions of dollars. "Such potential savings will be forever unrealized," the authors warn, "if a public insurance type of program is introduced which freezes the existing system in place and forecloses the options of either public provision or private market competition."

.../3

This study was prepared under the auspices of the Ontario Economic Council, an autonomous research agency funded by the Province of Ontario. The Council acts as an independent advisor to government and all political parties, undertakes research and policy studies to encourage the optimum development of the human and material resources of Ontario, and to support the advancement of all sectors of the Province. The Council achieves these goals by sponsorship of research projects, publication of studies, and organization of the Outlook & Issues Conferences and seminars which are open to the public.

- 30 -

NOTE: A list of persons to contact for further information, a brief biographical sketch of the authors, and a selection of quotations from the study are attached.

FOR FURTHER INFORMATION, CONTACT:

Dennis Forristal, public relations counsel, (416) 481-4438
Donald A. Dawson, Research Director, Ontario Economic Council
(416) 965-4315
Grant L. Reuber, Chairman, Ontario Economic Council,
(519) 679-3711

AUTHORS' BIOGRAPHICAL SKETCH

Robert G. Evans is Associate Professor of Economics at the University of British Columbia and specializes in health economics. Dr. Evans obtained his masters and doctorate degrees at Harvard University.

Malcolm F. Williamson is Assistant Professor, Public & Community Dental Health and Director, Continuing Dental Education, at the University of British Columbia. He received his graduate degree from the Faculty of Dentistry at the University of Toronto.

.../4

EXTENDING CANADIAN HEALTH INSURANCE: Options for pharmacare and denticare (276 Pgs.) is published by the University of Toronto Press, 5201 Dufferin St., Downsview, Ontario M3H 5T8, or 33 East Tupper St., Buffalo, New York 14203.

Also available from the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario M7A 1N8. Price: $12.00

.../5

SELECTED QUOTATIONS

"The purpose of this present study, therefore, is to provide a framework within which to define and to evaluate the major policy options which a provincial government might consider in extending health care coverage to pharmacy and dentistry. The framework will involve establishing certain criteria which one should apply in evaluating alternative programs. Then, specifically in the context of Ontario, alternative programs for both pharmacy and dentistry will be suggested and described in terms of their expected coverage, utilization patterns, impact on health and cost and efficiency. ... Since the personal services of trained professionals form the backbone of any health services delivery system, the efficiency with which such services are used is obviously a primary factor in comparing alternative programs." (Pg. 6)

"There appear to be four major classes of objectives or public purposes which can be influenced by public health insurance, and the extension of such insurance to pharmaceutical or dental care can be analysed with regard to its effects on each. These are: (1) the reduction of financial risk resulting from the possibility of illness and need for services; (2) the transfer of wealth from one group in society to another; (3) the level and patterns of utilization of health care services by patients and potential patients in the society; (4) the relative economic efficiency with which the health care services industry responds to the health needs of society, both by supplying the appropriate services and by producing them at minimum cost." (Pg. 8)

"Thus a rate of increase of prescription drug expenditure per capita of 10 per cent per year is more plausible than 7 per cent, and 12 per cent is not unduly high. These yield, respectively, $28.71 and $29.77 per capita as estimates of Ontario prescription drug expense in 1975. On a population base of 8.237 million, these estimates yield program costs for benefits alone of $236.5 million and $245.2 million exclusive of administrative costs." (Pg. 37)

.../6

"Assuming that a universal, first-dollar drug insurance plan for Ontario would in fact cost about $300 million in 1975, what does such a plan buy? The obvious answer - drugs - is incomplete, drugs will be bought with or without a plan ... we assume that a public insurance plan 'buys,' for the citizens of the province, a variety of different classes of effects which may be intended or unintended. The program 'buys' financial effects, in that it both reduces the financial uncertainty faced by potential drug users and transfers wealth from non-users to users. Moreover it may lead to changes in drug utilization levels and patterns, and thereby to changes in population health levels, although the linkage is far from certain. Finally a universal insurance program, by removing completely any sensitivity of patients to relative prescription prices, may change the economic behaviour of pharmaceutical dispensers and thereby affect the structure and efficiency of that industry. In return for these changes, we can assume that a drug insurance plan, pure and simple, without intervention on the supply side to modify utilization or dispensing patterns, must lead to a higher cost for drugs in total. This will result from administrative costs and from increase in utilization. Public (or private) insurance never makes drugs 'free' - instead it makes them more expensive. This must be balanced against the above advantages." (Pgs. 46-47)

"The drug delivery system can be broken into three components, each of which presents different types of problems and which suggests different solutions. The problem at issue in the dispensing function is over-use of highly-trained professional manpower to perform dispensing functions many of which are now more properly those of pharmaceutical aides, as well as to spend a high proportion of their costly time in non-pharmaceutical roles. At this level of the industry, it is estimated that 11.4-16.7 per cent of present prescription prices could be saved by a more rational use of pharmacist manpower. ... A further potential saving could be achieved by introducing more competition into the market for drug ingredients. Excess profits by large drug companies plus extremely high marketing costs are estimated to make up another 16.7-20 per cent of prescription costs, which could be reduced by drug acquisition through a competitive tendering process." (Pgs. 106-107)

"It appears that a public dental insurance program which had no impact on utilization (and therefore presumably yielded no over-all improvement in dental health) could have been introduced in Ontario in 1975 at a cost of $249.5 million. However a program which actually succeeded in providing professionally determined levels of 'needed' care, according to present modes of production and prices, would have cost $641.4 million. Between these end points, various demand elasticity estimates in the literature suggest anything from $449.0 million to $623.6 million - singularly unhelpful." (pg. 116)

"On the basis of these diverse sources, a total-population utilization rate of 60-70 per cent under insurance in 1975 is probably a fair range, implying total program costs for 'optimal care' of $392.7 to $458.1 million." (pg. 118)

"And the conclusion from the above chapters is that in general the benefits of a universal public program for either pharmacare or denticare are not great, and are probably outweighed by the costs. In each case, a partial insurance program appears to be superior to a universal one. Better still, are more specific public programs to change patterns of service delivery which operate on the supply-side simultaneously with the demand side, thus avoiding the old Hall Commission fallacy that it is possible for public policy to operate on one side of the market but not on the other." (Pg. 218)